



OHSU Public Finance & Audit Committee Meeting

**Friday, September 20, 2024
9:00-11:00am**

YouTube (Live Stream)

<https://youtube.com/live/70BXRuROAv8?feature=share>

Join by phone

+1-503-388-9555 Portland Oregon Toll

Access code: 2630 725 8935



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Agenda

1. FY 24 Unaudited Results
2. FY25 August YTD Financial Results



September 13, 2024

To: Members, OHSU Finance & Audit Committee

From: Lawrence J. Furnstahl
Executive Vice President & Chief Financial Officer

Re: Materials for September 20th Meeting

Enclosed are the materials for next Friday's public meeting of the Finance & Audit Committee, on September 20th at 9 am by WebEx. The brief agenda covers discussion of unaudited FY24 results and an update on FY25 through August. You may recall that the OHSU Board must meet every quarter, so we schedule back-to-back meetings in September (to review unaudited June results with an August update) and October, to receive the external audit report from KPMG on last year's financial statements and review Q1 results for the current year. To date, the audit process is going well.

OHSU ended FY24 with an operating loss of \$(97)m, a result that includes two large non-recurring items: +\$44m from a Medicare settlement of prior-year 340b pharmacy underpayments, and \$(18)m accrued in June for severance and related costs from the Strategic Alignment reduction in force. These RIF costs will be realized in cash (and the accrued liability relieved) during the first quarter of FY25.

Absent one-time items, the Q4 loss of \$(36)m is slightly higher than the average of the prior three quarters at \$(29)m, due to the increased investment in staff as the year went on. The shortfall in earnings from the approved balanced budget occurs entirely in Healthcare, reflecting the greater than budgeted investment in frontline patient care staff, higher Rx & medical supply inflation, and slower than targeted growth in complex care, although Improving Financial Performance (IFP) work reduced this last gap as the year progressed. All other areas of the University ended the year better than budget.

For Board and management reporting purposes, we show the annual accrual for OHSU's share of the PERS pension plan under GASB 68 accounting "below the line" of operating gain (loss). This entry is made each June and can swing widely from a positive to a negative based on PERS investment returns and other pension factors, recorded on a one-year lag. In FY24, the PERS accrual was an expense or loss of \$(13)m. Also booked with non-operating items is \$104m of FEMA recoveries that reimburse OHSU for otherwise uncovered pandemic costs in prior years, plus an investment gain on OHSU-held funds of \$175m, in line with benchmarks and a strong stock market.

New gifts raised in FY24 were nearly \$132m, exceeding the Foundation's goal of \$125m. Overall, net worth is up 4.4% in FY24 to \$4.3 billion, about half the annual growth rate achieved pre-pandemic due to the shortfall in operating income.

The FY25 budget approved in June has a 12-month operating loss of \$(25)m. Each year, we spread revenue, expense and operating income by month and quarter, using historical patterns of seasonality and calendar workdays. For FY25, the budget spread shifts from a loss to a gain as Strategic Alignment work phases in, especially the redeployment of beds, ORs and diagnostic capacity toward complex care requiring an AHC like OHSU. In addition, the budgets in early months include severance, notice and other costs from reductions in force; under GAAP accounting, \$18m of these were booked in June 2024.

Through the first two months of FY25, OHSU has an operating loss of \$(16)m on nearly 12% year-over-year revenue growth. This is +\$19m better than the seasonally-spread budget for July + August. Results in early months of the fiscal year can be erratic. Patient activity measured by rate-adjusted gross charges is up about 10% from last year and 3.5% above budget. High-growth areas that support complex, subspecialty programs are up more, showing progress toward Strategic Alignment goals to care for each patient promptly in the right setting. Of the \$18m in RIF-related costs accrued as a liability in June 2024, \$8m has been reversed to cover cash payments for severance, notice and other costs through August. The remaining \$10m will be applied in September.

On July 1st OHSU implemented GASB 101, "Compensated Absences." This new accounting standard impacts FY25 YTD accrued results but not cash. Previously, OHSU didn't record a liability or expense for compensated absences that couldn't be cashed out or weren't paid out when the employee left OHSU. GASB 101 requires all forms of earned leave to be consistently recognized as a liability (and operating expense) as they are earned by employees, whether or not they can ever be cashed out.

Although this ensures clearer and more transparent reporting of leave-related obligations, it does increase booked liabilities (initially by \$255m at OHSU) and this liability increases through an expense whenever an employee's pay rate increases or their bank of paid leave grows. GASB 101 became effective for OHSU on July 1st, so the beginning July net worth was decreased through a "below the line" accounting adjustment of \$(255)m off the June 30, 2024 base of \$4.28 billion. Also, through the first two months of FY25, we recorded an additional current year expense of \$5m, reflecting the net of leave accrued vs leave taken, as well as increases in employee pay rates.

This change is non-cash so we propose to measure final FY25 budget performance across operating units on a pre-GASB 101 basis, like we handle the non-cash impact of the GASB 68 pension accrual changes. In other words, the positive budget variance through August of +\$19m would have been +\$24m (or \$5m better), absent the non-cash impact of GASB 101. Of this +\$24m, \$8m reflects the accrual into June of RIF-related costs paid in July & August.

Strategic alignment at this challenging time will protect and enhance OHSU's unique role as Oregon's public health sciences university with statutory state-wide missions in education, research, patient care and outreach. To balance the needed step-function increase in wages & costs post-COVID, we will:

- Care for each patient promptly in the right setting and cost structure
- Invest in patient-facing staff
- Secure inflation-appropriate payment rates
- Implement rigorous cost savings while increasing capacity
- Hold fixed costs fixed with growth to capture economies of scale
- Expand revenue sources such as philanthropy and pharmacy services
- Serve the health & well-being priorities of the State of Oregon (e.g., behavioral health and workforce development) to sustain OHSU's missions and public support.



OHSU Onward: FY24 Unaudited Financial Results with FY25 August YTD Update

OHSU Finance & Audit Committee / September 20, 2024

Introduction to FY24 Year-End Results

- This document presents unaudited FY24 financial results together with an update through the first two months of FY25.
- KPMG will report on their external audit of the FY24 financial statements at the October meeting. To date, the audit process is going well.
- OHSU ended FY24 with an operating loss of \$(97)m, a result that includes two large non-recurring items: +\$44m from a Medicare settlement of prior-year 340b pharmacy underpayments, and \$(18)m accrued in June for severance and related costs from the Strategic Alignment reduction in force.
- These RIF costs will be realized in cash (and the accrued liability relieved) during the first quarter of FY25.
- Absent one-time items, the Q4 loss of \$(36)m is slightly higher than the average of the prior three quarters at \$(29)m, due to the increased investment in staff as the year went on.
- The shortfall in earnings from the approved balanced budget occurs entirely in Healthcare, reflecting the greater than budgeted investment in frontline patient care staff, higher Rx & medical supply inflation, and slower than targeted growth in complex care, although IFP work reduced this last gap as the year progressed.
- All other areas of the University ended the year better than budget.

Introduction to FY24 Results (continued)

- For Board and management reporting purposes, we show the annual accrual for OHSU's share of the PERS pension plan "below the line" of operating gain (loss). This entry is made each June and can swing widely from a positive to a negative based on PERS investment returns and other pension factors, recorded on a one-year lag.
- In FY24, the PERS accrual was an expense or loss of \$(13)m.
- Also booked "below the line" with non-operating items is \$104m of FEMA recoveries that reimburse OHSU for otherwise uncovered pandemic costs in prior years, plus an investment gain on OHSU-held funds of \$175m.
- The expected investment return on OHSU's indexed stock & bond portfolio is about 6% with one standard deviation of plus or minus 12%.
- In other words, annual returns from -6% to +18% would be expected two-thirds of the time; actual FY24 returns (detailed later in this document) although higher than the 6% average due to a strong stock market, are well within this range.
- Fundraising progress (new gifts counted under "CASE" or fundraising professionals' standards) was nearly \$132m, exceeding the Foundation's FY24 goal of \$125m.
- Overall, net worth is up 4.4% in FY24 to \$4.3 billion, about half the annual growth rate achieved pre-pandemic due to the shortfall in operating income.

FY24 Dollar Change from Prior Year

- The broadest way of looking at FY24 financial results is to compare dollars of revenue and expense to the prior year.
- Through 12 months, revenues are up \$462m or 10% but expenses are up \$612m or 13.5%, for a \$(150)m negative swing in operating income.
- Improving Financial Performance (IFP) work has narrowed the gap between revenue and expense growth but has not eliminated it.
- Strategic Alignment in the FY25 budget aims to reduce this gap further.

| OHSU Operating Income (millions) | FY23 Jun YTD | FY24 Jun YTD | Dollar Change |
|--|-----------------|-----------------|------------------|
| Operating revenue | \$4,573 | \$5,035 | \$462 |
| Operating expense | 4,520 | 5,132 | 612 |
| Operating gain (loss) | \$53 | \$(97) | \$(150) |

FY24 Results: Major Budget Impacts through June

- From FY13 to FY23, OHSU patient activity increased by 4% per year. To meet patient demand while balancing the FY24 budget, we targeted 6% growth through June. With IFP efforts, we ended FY24 within 0.6% or \$20m of this goal.
- Taking out **one-time** items and areas **ahead of budget** (largely due to program ramp up) shows a \$157m lift from FY24's run-rate to break even.

FY24 June YTD Variance from Budget (millions)

\$0 Budgeted operating income (12 months)

(20) Revenue impact of -0.8% lower complexity-weighted activity

(134) Greater than budgeted investment in patient-facing pay & staffing

+34 Provost, CRO & Central areas ahead of budget (program ramp up)

+44 Medicare 340b settlement (one-time)

(18) Severance & other expense from Strategic Alignment reduction in force

(3) All other, net

\$(97) Actual operating income

\$(157) Annual loss taking out both **one-time** items and **positive variances**

Variance from Budget by Major Area of OHSU

- Due to the greater-than-budgeted investment in patient facing staff combined with higher Rx & medical supply inflation and delay in achieving complex care growth, the FY24 shortfall from budget occurred in Healthcare.
- All other areas of the University—the School of Medicine, Provost and Chief Research Officer areas, central administrative and support units, and institutional accounts such as strategic initiatives, insurance, depreciation and interest ended the year better than budget.
- The “Other Central Administration” line includes areas reporting to the EVP Chief Administrative Officer & Chief of Staff, the EVP & Chief People Officer, the EVP Institutional Affairs & General Counsel, and the President’s Office. Spending in each of these areas was below budget in FY24.

| FY24 Variance from Budget | (millions) |
|---|-------------------|
| Healthcare | \$(164.6) |
| School of Medicine | 17.2 |
| Subtotal - HC + SoM | (147.4) |
| Provost Areas | 14.6 |
| Chief Research Officer Areas | 6.1 |
| Chief Financial Officer Areas | 7.9 |
| Other Central Administration | 5.5 |
| Subtotal - Other Operating Areas | 34.1 |
| Institutional Accounts* | 12.2 |
| Restricted (Grant) Funds | 0.9 |
| Depreciation & Interest | 2.8 |
| Total Shortfall from Budget | \$(97.4) |
| <i>*Includes Strategic Initiatives, Insurance, Contingency and other OHSU-wide items.</i> | |

FY24 Unaudited Loss at \$(97)M with -1.9% Margin

| June YTD (12 Months) (millions) | FY23 Last Year | FY24 Budget | FY24 Actual | Actual - Budget | Actual / Last Year |
|---|-------------------|----------------|----------------|--------------------|-----------------------|
| Net patient revenue | \$3,069 | \$3,417 | \$3,449 | \$32 | 12.4% |
| Medical contracts | 154 | 184 | 185 | 1 | 19.8% |
| Grants & contracts | 562 | 557 | 580 | 23 | 3.1% |
| Gifts applied | 99 | 113 | 121 | 8 | 22.2% |
| Tuition & fees | 82 | 83 | 81 | (2) | -0.4% |
| Sales, services & other | 275 | 259 | 327 | 68 | 18.7% |
| State support* | 331 | 283 | 293 | 11 | -11.5% |
| Operating revenues | 4,573 | 4,896 | 5,035 | 140 | 10.1% |
| Salaries & benefits* | 2,739 | 3,013 | 3,172 | 159 | 15.8% |
| Rx & medical supplies | 861 | 949 | 998 | 49 | 15.9% |
| Other services & supplies | 669 | 676 | 708 | 32 | 5.8% |
| Depreciation | 209 | 217 | 213 | (4) | 1.7% |
| Interest | 42 | 42 | 43 | 1 | 0.2% |
| Operating expenses | 4,520 | 4,896 | 5,133 | 237 | 13.6% |
| Operating income (loss) | \$53 | \$0 | \$(97) | \$(97) | |
| <i>Operating margin</i> | <i>1.2%</i> | <i>0.0%</i> | <i>-1.9%</i> | <i>-1.9%</i> | |
| <i>EBITDA margin</i> | <i>6.7%</i> | <i>5.3%</i> | <i>3.1%</i> | <i>-2.1%</i> | |
| *State support in FY23 included \$57.5m of funds related to the State's mid-biennium rebalance. | | | | | |

Volume Metrics Up but Size-Weighted Activity Off

| Patient Activity | FY23 | FY24 | FY24 | Actual | Actual |
|------------------------------|-----------|-----------|-----------|-----------|-------------|
| June YTD (12 Months) | Last Year | Budget | Actual | / Budget | / Last Year |
| Inpatient admissions | 27,446 | 27,720 | 27,713 | 0.0% | 1.0% |
| Average length of stay | 7.02 | 7.00 | 7.03 | 0.4% | 0.1% |
| Average daily census | 487.2 | 481.6 | 493.2 | (2.4%) | 1.2% |
| Day / observation patients | 45,954 | 46,890 | 48,538 | 3.5% | 5.6% |
| Surgical cases | 35,257 | 36,399 | 37,150 | 2.1% | 5.4% |
| Emergency visits | 54,748 | 55,005 | 56,441 | 2.6% | 3.1% |
| Ambulatory visits | 1,139,073 | 1,170,899 | 1,210,547 | (3.4%) | 6.3% |
| Casemix index (CMI) | 2.52 | 2.50 | 2.51 | 0.4% | -0.4% |
| Outpatient share of activity | 56.2% | 57.8% | 58.3% | 0.9% | 3.7% |
| CMI/OP adjusted admissions | 157,853 | 164,401 | 166,861 | 1.5% | 5.7% |
| Rate-adjusted gross charges | 7,203 | 7,423 | 7,381 | (-0.6%) | 2.5% |

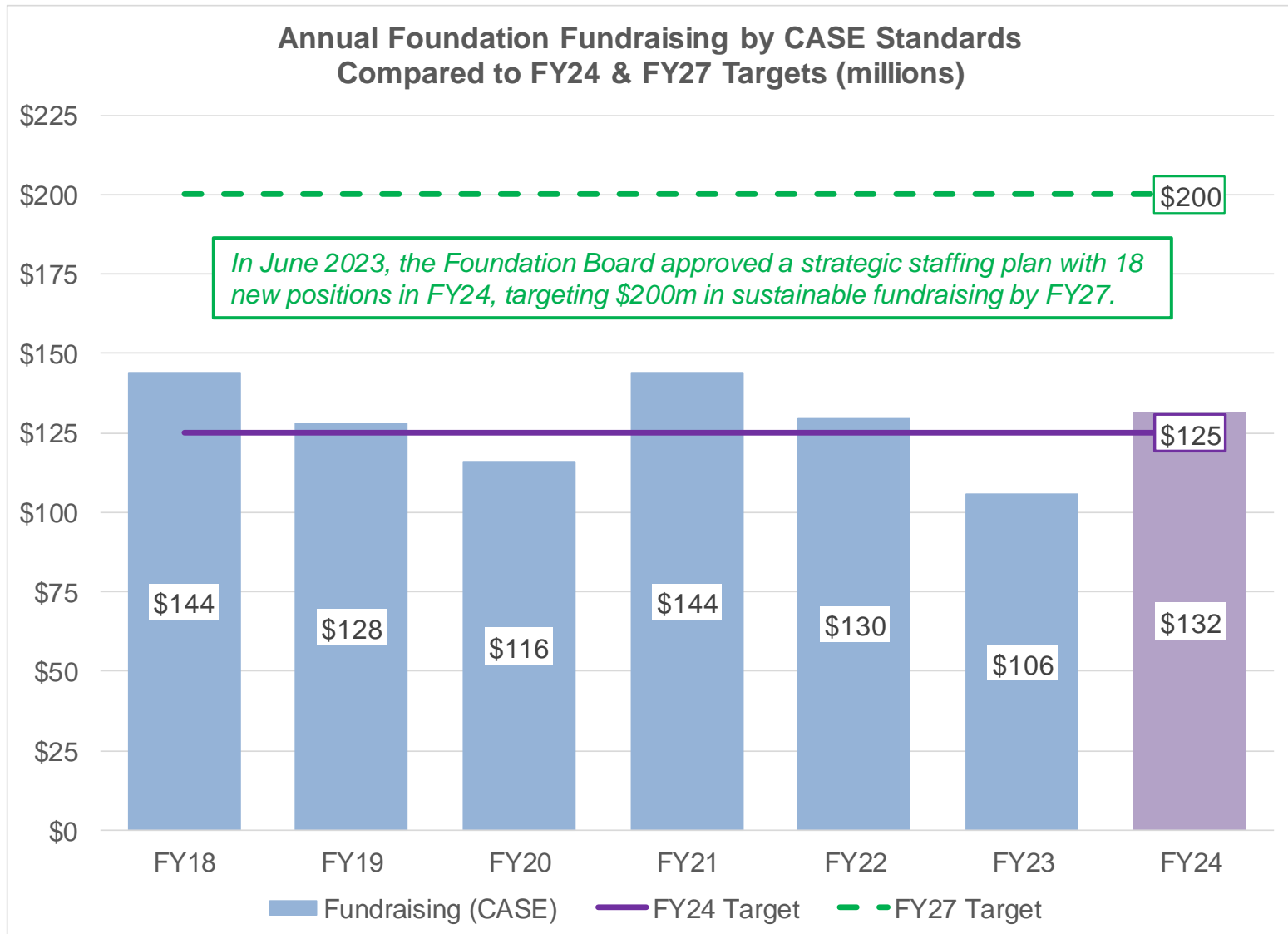
Healthcare Growth Against Budget & Last Year

- Services to meet AHC-level demand were targeted to grow the fastest in FY24. These are up strongly from the prior year (+10.8%) but not yet as much as planned (+13.5%).
- During the year, IFP work has narrowed this gap, closing it completely for non-hospital pharmacy services such as home infusion.

| June YTD Volume Growth by Service Area (FY24 / FY23) | % of Hosp. Charges | Budgeted Growth | Actual Growth | Actual vs Budget |
|--|--------------------|------------------|------------------|------------------|
| Non-hospital pharmacy | 137% | 15.9% | 16.6% | 0.6% |
| Professional (imaging, lab, etc.) | 93% | 8.3% | 4.8% | -3.2% |
| Oncology services | 25% | 21.0% | 4.8% | -13.4% |
| Subtotal - higher growth areas | 255% | (13.5%) | (10.8%) | -2.3% |
| Surgery & procedural | 107% | 2.1% | 1.4% | -0.7% |
| All other hospital services | 150% | -2.8% | -0.2% | 2.7% |
| Subtotal - lower growth areas | 258% | -0.7% | 0.5% | 1.3% |
| Rate-adjusted gross charges | 513% | 6.0% | 5.4% | -0.6% |

- The FY25 budget and Strategic Alignment aim to meet patient needs better by allocating more physical and staffing capacity (such as beds & ORs) to cancer care and other complex subspecialty programs unique to Oregon's only AHC.

Foundation Exceeded \$125m Gift Target in FY24



Net Worth Up \$181M or +4.4% in FY24

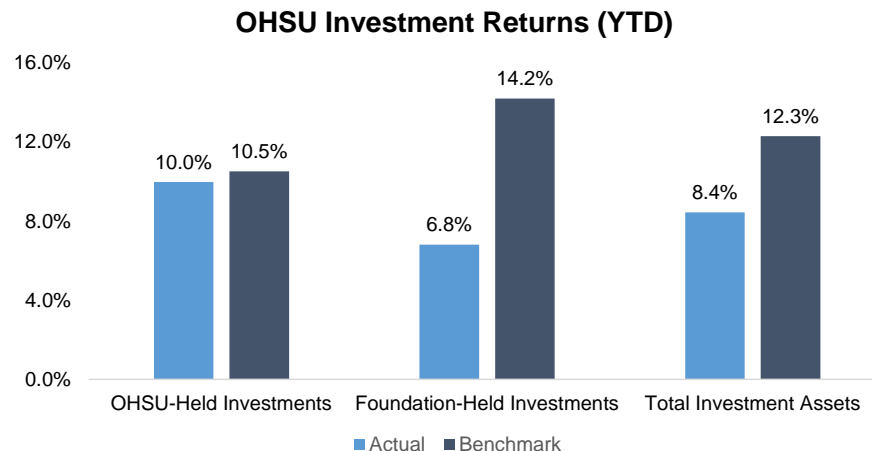
- OHSU's days cash on hand are 172 on 6/30/24, down from 184 at last year-end. The FY23 Fitch medians are 270 days cash for AA credits, 205 for A, and 138 for BBB.
- OHSU-held investments returned \$175m, consistent with benchmarks.
- \$104m of FEMA assistance has been approved by the government in FY24. These funds mitigate extra costs from the pandemic and will be used to cover part of the shortfall in operating income to fund the \$650m Inpatient Addition project.

| Balance Sheet (millions) | 6/30/23 | 6/30/24 | 12-Month Change |
|------------------------------------|----------------|----------------|--------------------|
| OHSU-held cash & investments | \$1,386 | \$1,460 | \$73 |
| OHEP construction fund | 236 | 111 | (125) |
| Net property, plant & equipment | 2,219 | 2,414 | 195 |
| Interest in OHSU Foundation | 1,536 | 1,546 | 9 |
| Long-term debt | (1,370) | (1,336) | 33 |
| PERS pension liability | (396) | (513) | (116) |
| Deferred pension outflows/inflows | 12 | 118 | 106 |
| Working capital (A/R) & other, net | 473 | 479 | 6 |
| Consolidated net worth | \$4,097 | \$4,278 | \$181 |
| Operating income (loss) | | | (97) |
| FEMA public assistance | | | 104 |
| Year-end PERS pension accrual | | | (13) |
| Return on OHSU-held investments | | | 175 |
| Grant & gift funded capital | | | 6 |
| Foundation gain (loss) | | | 9 |
| Other non-operating items | | | (4) |
| FY24 change in net worth | | | \$181 |

| FY24 June YTD Cash Flow (millions) | (millions) |
|---------------------------------------|--------------|
| Operating income | \$(97) |
| Depreciation | 213 |
| FEMA public assistance | 104 |
| Investment return | 175 |
| Construction funds applied | 125 |
| Grant & gift funded capital | 6 |
| Sources of cash | 526 |
| Long-term debt repaid | (33) |
| Capital spending | (408) |
| Patient A/R & other, net | (12) |
| Uses of cash | (453) |
| Net cash flow | \$73 |
| 6/30/23 Days cash on hand | 184 |
| 6/30/24 Days cash on hand | 172 |

FY24 June YTD Investment Returns Up 8.4%

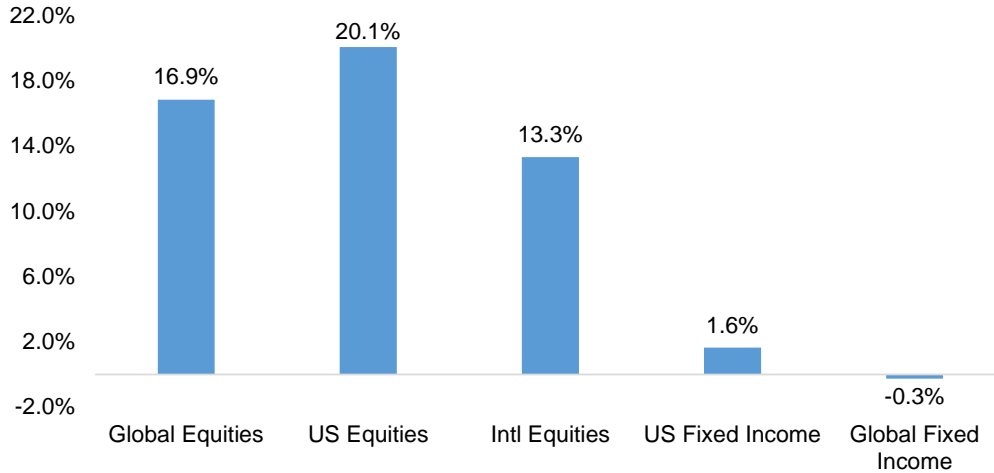
- Inflation continued to moderate globally, and the US economy exhibited strength with unemployment remaining at historically low levels (4.1% at year-end). This provided a positive economic backdrop with respect to corporate financial performance, with earnings increasing 10.1% on a year-over-year basis.
- Global Equities returned 19.4% during FY24. US Equities outperformed International Equities returning 24.6% vs. 11.5%. In particular, the US tech sector outperformed due to earnings results and the optimism over further AI innovation and adoption.
- US Fixed Income returned 2.6% during FY24. Yields on US treasury bonds rose modestly while corporate credit spreads tightened, coincident with improved corporate financial performance. Private investments in the Foundation endowment are expected to lag public benchmarks during periods of rapid stock market gains.



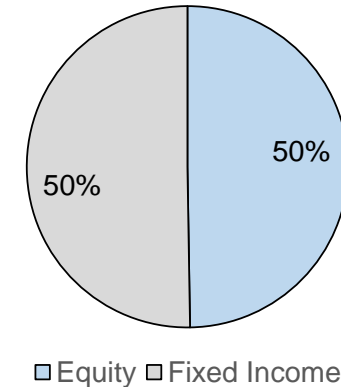
** Foundation actual and benchmark return calculated by OHSUF staff, with NAV sourced from investment managers.*

FY24 June YTD Investments Up 8.4% in Total

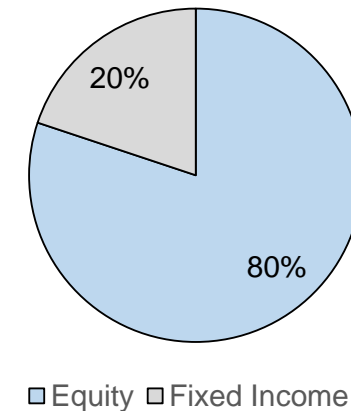
Major Index Returns (YTD)



Asset Allocation – OHSU-Held Funds



Asset Allocation – Foundation-Held Funds



| Asset Pool | 6/30/2023 Balance | 6/30/2024 Balance | FY24 YTD TR (%) | Benchmark YTD TR (%) |
|-------------------------------------|--------------------|--------------------|-----------------|----------------------|
| OHSU-Held Funds | | | | |
| Short-Term Asset Pools | 536,897 | 442,811 | 5.3% | 5.2% |
| Long-Term Asset Pools | 1,081,776 | 1,150,444 | 12.3% | 13.2% |
| Other Asset Pools | 102,582 | 113,890 | 14.3% | 14.3% |
| Total OHSU Assets | \$1,721,256 | \$1,707,146 | 10.0% | 10.5% |
| Foundation-Held Funds* | | | | |
| Non-Endowment Asset Pools | 238,524 | 186,551 | 7.9% | 7.5% |
| Endowment Assets | 1,367,038 | 1,449,688 | 6.7% | 15.3% |
| Total Foundation Assets | \$1,605,562 | \$1,636,239 | 6.8% | 14.2% |
| Total OHSU Investable Assets | \$3,326,818 | \$3,343,385 | 8.4% | 12.3% |

* Foundation actual and benchmark return calculated by OHSUF staff, with NAV sourced from investment managers.

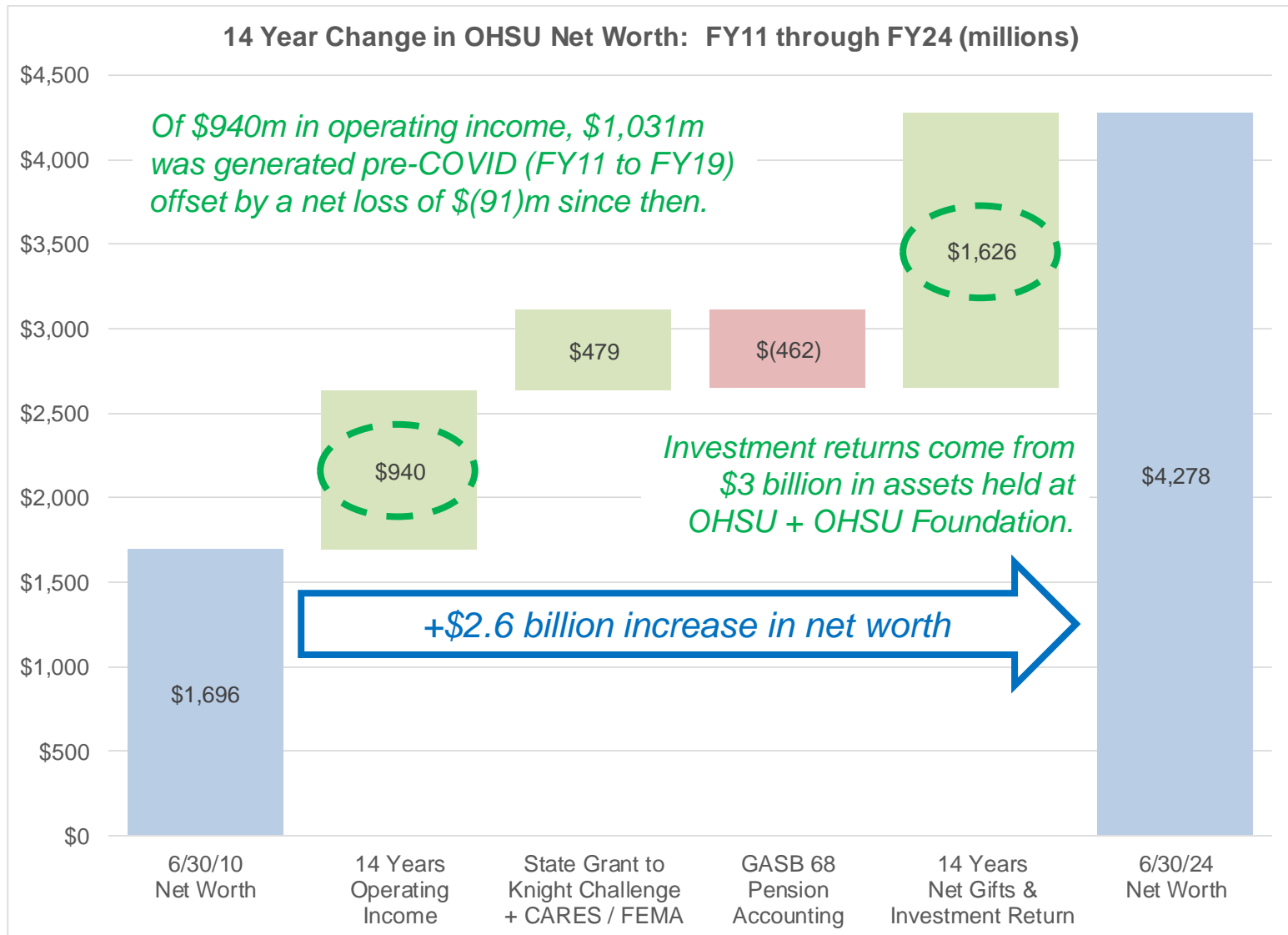


Shortfall in Resources from Pre-Pandemic Levels

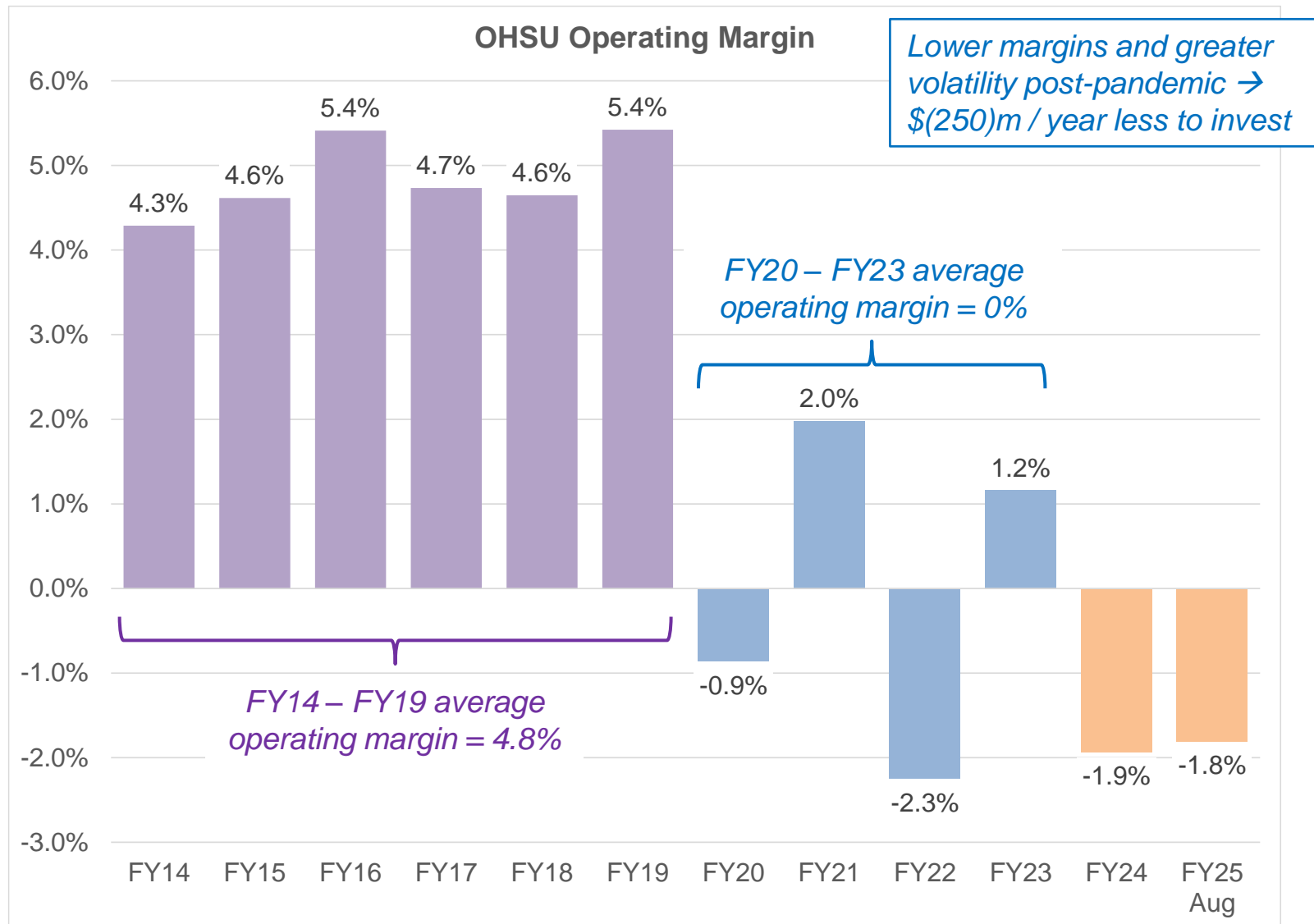
- In FY19, OHSU had an operating gain of \$176.5m. If we had kept just this dollar level of earnings for the next 5 years (FY20 through FY24), cumulative earnings would be \$882m—and higher if calculated on a percent of revenue basis.
- In fact, operating income is a cumulative loss of \$(91)m, offset by \$144m of CARES Act and \$136m of FEMA support booked “below the line” per GASB accounting.
- The actual net is a gain of \$189m or \$(693)m below the pre-pandemic dollar level. OHSU uses earnings to invest in its people, programs, places and things.

| Oper. Income & Federal Support (millions) | Actual Gain (Loss) | FY19 Earnings Comparison |
|---|-----------------------|-----------------------------|
| FY20 operating loss | \$(29.2) | \$176.5 |
| FY21 operating gain | 72.4 | 176.5 |
| FY22 operating loss | (89.7) | 176.5 |
| FY23 operating gain | 53.0 | 176.5 |
| FY24 operating loss | (97.4) | 176.5 |
| Subtotal - 5 years oper. income | (91.0) | 882.4 |
| CARES Act / FEMA assistance | 280.0 | |
| Total - oper. income & fed. support | 189.0 | 882.4 |
| Shortfall from FY19 dollar earnings | \$(693.4) | |

Growth Requires Capital: 6.8% Net Worth CAGR



Margin to Invest in People, Programs & Places



Strategic Alignment Principles in FY25 Budget

- Lead the healthcare sector in patient-facing staffing and pay to retain & recruit front-line clinicians and provide the complex care our patients need (~\$175m investment)
- Invest \$25m from incremental IGT funds in Behavioral Health
- Sustain the OHSU Tuition Promise with 2% increase for entering students
- Budget for Schneider Report recommendations.
- Fund salaries & benefits for faculty and staff that increase by an average of 6.1% in FY24, exceeding the projected growth in payment rates from patient care (average 4.3%), research (flat NIH budget), and education (2% tuition increase).
- Care for patients promptly with right care, in right setting & at right cost structure
- Advance OHSU toward regional leadership in complex subspecialty care that requires an academic health center, including a national-class cancer center (~\$55m gain).

Strategic Alignment in FY25 Budget (continued)

- Continue construction on the Inpatient Addition (IPA) with start of interior buildout, using FEMA dollars (which covered extra pandemic costs) in place of regular earnings to supplement bond funds borrowed in December 2021.
- Continue tight management of positions and vacancies (~\$75m savings)
- Cut spending, eliminate duplication and streamline functions across communications & marketing, supply chain, revenue cycle, and central finance functions (~\$20m savings)
- Mitigate operational risk by increasing financial risk: \$(25)m operating deficit balanced by a corresponding holdback in annual capital budget.

Spread of FY25 Budget by Month & Quarter

- The FY25 budget approved in June has a 12-month operating loss of \$(25)m.
- Each year, we spread revenue, expense and operating income by month and quarter, using historical patterns of seasonality and calendar workdays.
- There is a significant amount of noise to signal in these patterns, especially on a month-by-month basis.
- For FY25, the budget spread shifts from a loss to a gain as Strategic Alignment work phases in, especially the redeployment of beds, ORs and diagnostic capacity toward complex care requiring an AHC like OHSU.
- In addition, the budgets in early months include severance, notice and other costs from reductions in force; under GAAP accounting we booked \$18m of these in June 2024.

| FY25 Budget Spread by Month & Quarter (millions) | Operating Revenue | Operating Expense | Operating Income |
|---|-------------------|-------------------|------------------|
| July | \$450 | \$477 | \$(27) |
| August | 442 | 449 | (8) |
| September | 432 | 446 | (14) |
| Q1 total | 1,324 | 1,372 | (48) |
| October | 460 | 471 | (11) |
| November | 435 | 438 | (2) |
| December | 458 | 459 | (1) |
| Q2 total | 1,353 | 1,367 | (14) |
| January | 463 | 476 | (13) |
| February | 441 | 432 | 9 |
| March | 465 | 458 | 8 |
| Q3 total | 1,369 | 1,366 | 4 |
| April | 473 | 465 | 8 |
| May | 471 | 464 | 8 |
| June | 471 | 453 | 17 |
| Q4 total | 1,416 | 1,382 | 34 |
| FY24 total (12 months) | \$5,462 | \$5,487 | \$(25) |

FY25 August YTD Financial Results

- Through the first two months of FY25, OHSU has an operating loss of \$(16)m on nearly 12% year-over-year revenue growth.
- This is +\$19m better than the seasonally-spread budget for July + August noted on the prior page. Results in early months of the fiscal year can be erratic.
- Patient activity measured by rate-adjusted gross charges is up about 10% from last year and 3.5% above budget. High-growth areas that support complex, subspecialty programs are up more, showing progress toward Strategic Alignment goals to care for each patient promptly in the right setting.
- Of the \$18m in RIF-related costs accrued as a liability in June 2024, \$8m has been reversed to cover cash payments for severance, notice and other costs through August. The remaining \$10m will be applied in September.
- On July 1st OHSU implemented GASB 101, “Compensated Absences.” This new accounting standard impacts FY25 YTD accrued results but not cash.
- Previously, government entities like OHSU recorded liabilities and expense for leave, such as vacation, paid-time-off, and sick leave, that employees could be paid for upon termination or retirement, but the treatment of different types of leave could vary across different entities.
- Specifically, OHSU didn't record a liability or expense for compensated absences that couldn't be cashed out or weren't paid out when the employee left OHSU.

FY25 August Results – GASB 101 Impact

- GASB 101 addresses this inconsistency by requiring all forms of earned leave to be consistently recognized as a liability (and operating expense) as they are earned by employees, whether or not they can ever be cashed out.
- Although this ensures clearer and more transparent reporting of leave-related obligations, it does increase booked liabilities (initially by \$255m at OHSU) and this liability increases through an expense whenever an employee's pay rate increases or their bank of paid leave grows.
- GASB 101 became effective for OHSU on July 1st, so the beginning July net worth was decreased through a "below the line" accounting adjustment of \$(255)m off the June 30, 2024 base of \$4.28 billion.
- Also, through the first two months of FY25, we recorded an additional current year expense of \$5m, reflecting the net of leave accrued vs leave taken, as well as increases to employee pay rates.
- This change is non-cash so we propose to measure final FY25 budget performance across operating units on a pre-GASB 101 basis, like we handle the non-cash impact of the GASB 68 pension accrual changes.
- In other words, the positive budget variance through August of +\$19m would have been +\$24m (or \$5m better), absent the non-cash impact of GASB 101. Of this +\$24m, \$8m reflects the accrual into June of RIF-related costs paid in July & August.

FY25 August YTD Loss \$(16)m vs \$(35)m in Budget

| August YTD (2 Months) (millions) | FY24 Last Year | FY25 Budget | FY25 Actual | Actual - Budget | Actual / Last Year |
|--|-------------------|----------------|----------------|--------------------|-----------------------|
| Net patient revenue | \$554 | \$615 | \$603 | \$(12) | 8.9% |
| Medical contracts | 29 | 35 | 32 | (2) | 11.5% |
| Grants & contracts | 94 | 100 | 101 | 1 | 7.5% |
| Gifts applied | 15 | 22 | 18 | (4) | 16.6% |
| Tuition & fees | 12 | 12 | 13 | 1 | 3.9% |
| Sales, services & other | 39 | 45 | 55 | 10 | 40.6% |
| State support | 49 | 63 | 63 | 0 | 30.4% |
| Operating revenues | 793 | 892 | 886 | (6) | 11.8% |
| Salaries & benefits* | 489 | 579 | 567 | (12) | 15.9% |
| Rx & medical supplies | 153 | 181 | 185 | 4 | 20.8% |
| Other services & supplies | 110 | 121 | 108 | (14) | -1.7% |
| Depreciation | 35 | 38 | 36 | (3) | 1.4% |
| Interest | 7 | 7 | 7 | 0 | 5.7% |
| Operating expenses | 794 | 926 | 902 | (24) | 13.7% |
| Operating income (loss) | \$(1) | \$(35) | \$(16) | \$19 | |
| <i>Operating margin</i> | <i>-0.1%</i> | <i>-3.9%</i> | <i>-1.8%</i> | <i>2.1%</i> | |
| <i>EBITDA margin</i> | <i>5.2%</i> | <i>1.2%</i> | <i>3.0%</i> | <i>1.9%</i> | |
| <i>*Salaries & benefits in FY24 August YTD did not yet include negotiated ONA increases.</i> | | | | | |
| | Last Year | Budget | Actual | Act / Bdg | Act / Lst Yr |
| Patient Activity Summary: | | | | | |
| Average daily census | 485.8 | 501.9 | 490.5 | -2.3% | 1.0% |
| Surgical cases | 6,286 | 6,378 | 6,538 | 2.5% | 4.0% |
| CMI/OP adjusted admissions | 28,355 | 28,019 | 30,035 | 7.2% | 5.9% |
| Rate-adjusted gross charges | 1,309 | 1,390 | 1,440 | 3.5% | 9.9% |

Healthcare Growth Against Budget & Last Year

- Services to meet AHC-level demand are targeted to grow about twice as fast as other services in FY25.
- Through two months both categories are up strongly from prior year (12% and 8% respectively) and exceeding budget.
- This pattern reflects progress in meeting patient needs by allocating more physical and staffing capacity (such as beds & ORs) to cancer care and other complex subspecialty programs unique to Oregon's only academic health center.

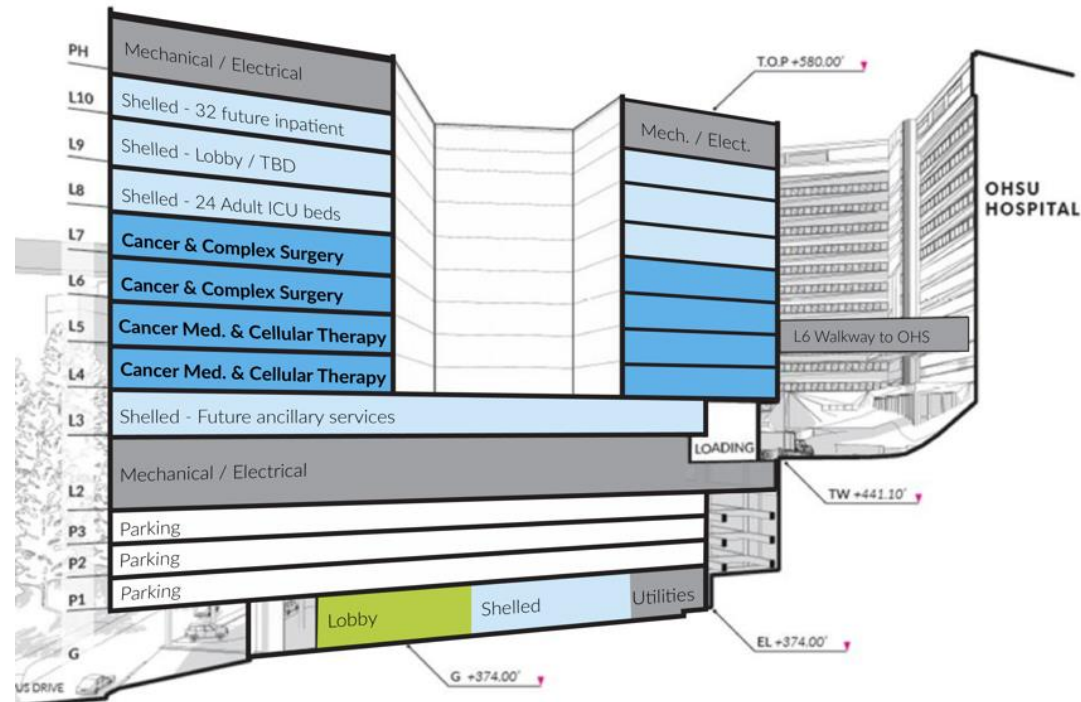
| August YTD Volume Growth by Service Area (FY25 / FY24) | % of Hosp. Charges | Budgeted Growth | Actual Growth | Actual vs Budget |
|---|---------------------------|------------------------|----------------------|-------------------------|
| Non-hospital pharmacy | 28% | 11.3% | 18.5% | 6.5% |
| Professional (imaging, lab, etc.) | 17% | 3.4% | 0.9% | -2.4% |
| Oncology services | 5% | 10.1% | 19.9% | 8.9% |
| Subtotal - higher growth areas | 50% | 8.2% | 12.0% | 3.5% |
| Surgery & procedural | 20% | 3.8% | 3.1% | -0.7% |
| All other hospital services | 30% | 4.5% | 11.4% | 6.6% |
| Subtotal - lower growth areas | 50% | 4.2% | 8.0% | 3.6% |
| Rate-adjusted gross charges | 100% | 6.2% | 9.9% | 3.5% |

IPA Adding 128 New Beds + 4 Shelled Floors

- The \$650m Inpatient Addition (IPA) is on schedule and on budget to open in spring 2026.
- Of \$350m borrowed in December 2021, \$86m remains to be applied.
- The IPA will add 128 new beds, bringing OHSU's total from 549 to 677 beds, with 4 shelled floors.



Construction as of 9/13/24

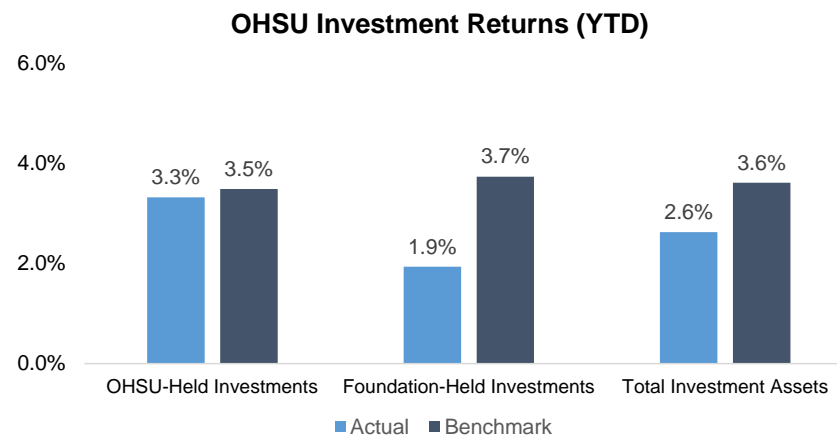


| Level | Unit | Beds |
|-------|------------------------------------|------|
| 7 | Cancer & Complex Surgery | 32 |
| 6 | Cancer & Complex Surgery | 32 |
| 5 | Cancer Medicine & Cellular Therapy | 32 |
| 4 | Cancer Medicine & Cellular Therapy | 32 |
| | | 128 |

| Inpatient Addition Funding | (millions) |
|---------------------------------|--------------|
| Bonds issued in December 2021 | \$350 |
| FEMA funds in place of earnings | 136 |
| Fundraising & cash balances | 164 |
| Total IPA funding | \$650 |

FY25 August YTD Investment Returns Up 2.6%

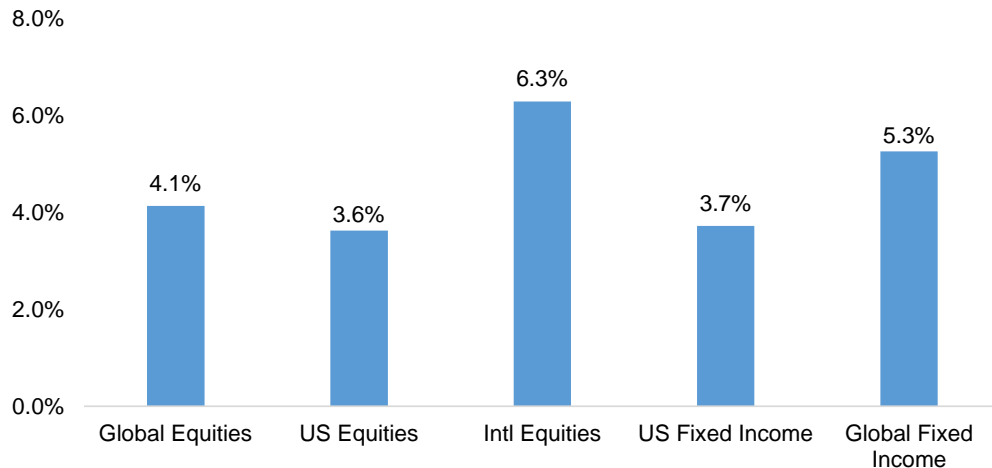
- Employment data released in July surprised to the downside causing a temporary drawdown in equities due to elevated recessionary fears. This reverted as positive economic data was released and markets recouped losses. Of note, headline inflation declined to 3% year-over-year, further reinforcing the “soft landing” narrative.
- Global equities returned 2.5% in August, with US equities underperforming International Equities 2.4% vs. 3.3%. Earnings season showed continued strength for US companies with year-over-year earnings growth of nearly 11%, marking the highest growth rate since Q4 2021.
- US Fixed Income increased 1.4% as yields fell across the curve. Credit spreads changed little and remained at historically tight levels.



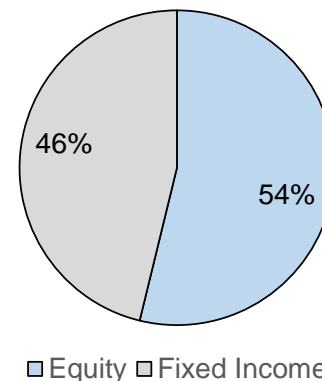
* Foundation actual and benchmark return calculated by OHSUF staff, with NAV sourced from investment managers.

FY25 August YTD Investments Up 2.6%

Major Index Returns (YTD)

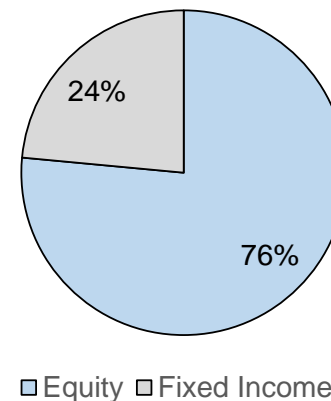


Asset Allocation – OHSU-Held Funds



| Asset Pool | 6/30/2024 Balance | 8/31/2024 Balance | FY24 YTD TR (%) | Benchmark YTD TR (%) |
|-------------------------------------|--------------------|--------------------|-----------------|----------------------|
| OHSU-Held Funds | | | | |
| Short-Term Asset Pools | 442,811 | 319,694 | 1.6% | 1.7% |
| Long-Term Asset Pools | 1,150,444 | 1,196,010 | 4.1% | 4.3% |
| Other Asset Pools | 113,890 | 113,089 | 1.5% | 1.5% |
| Total OHSU Assets | \$1,707,146 | \$1,628,792 | 3.3% | 3.5% |
| Foundation-Held Funds* | | | | |
| Non-Endowment Asset Pools | 186,551 | 229,291 | 2.8% | 2.8% |
| Endowment Assets | 1,449,688 | 1,422,770 | 1.8% | 3.9% |
| Total Foundation Assets | \$1,636,239 | \$1,652,061 | 1.9% | 3.7% |
| Total OHSU Investable Assets | \$3,343,385 | \$3,280,853 | 2.6% | 3.6% |

Asset Allocation – Foundation-Held Funds



* Foundation preliminary actual and benchmark return calculated by OHSUF staff, with NAV sourced from investment managers.



Achieving the New Post-Pandemic Equilibrium

- Our financial strategy has been to continuously grow patient activity to meet the needs of Oregon and the Pacific Northwest while spreading fixed costs across a wider base.
- We focus on highly specialized programs that leverage research and draw patients with complex diseases who need AHC-level care from throughout Oregon and beyond.
- Growth requires earnings, investment income and gifts to invest in people, programs, places and things.
- To balance the needed step-function increase in wages & costs post-COVID, we will:
 - Care for each patient promptly in the right setting and cost structure
 - Invest in patient-facing staff
 - Secure inflation-appropriate payment rates
 - Implement rigorous cost savings while increasing capacity
 - Hold fixed costs fixed with growth to capture economies of scale
 - Expand revenue sources such as philanthropy and pharmacy services
 - Serve the health & well-being priorities of the State of Oregon (e.g., behavioral health and workforce development) to sustain OHSU's missions and public support.
- Strategic alignment at this challenging time will protect and enhance OHSU's unique role as Oregon's public health sciences university with statutory state-wide missions in education, research, patient care and outreach.